

VZCZCXRO6828  
OO RUEHCHI RUEHCN RUEHDT RUEHHM  
DE RUEHBK #5824/01 3190845  
ZNY CCCCC ZZH  
O 150845Z NOV 07  
FM AMEMBASSY BANGKOK  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0686  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE  
RUEHBJ/AMEMBASSY BEIJING 5173  
RUEHBY/AMEMBASSY CANBERRA 7965  
RUEHLO/AMEMBASSY LONDON 1504  
RUEHUL/AMEMBASSY SEOUL 3920  
RUEHKO/AMEMBASSY TOKYO 0057  
RUEHWL/AMEMBASSY WELLINGTON 1980  
RUEHCHI/AMCONSUL CHIANG MAI 4416  
RUEAIIA/CIA WASHINGTON DC  
RHFJSCC/COMMARFORPAC  
RHHMUNA/CDR USPACOM HONOLULU HI  
RHHMUNA/HQ USPACOM HONOLULU HI  
RHEFDIA/DIA WASHDC  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BANGKOK 005824

SIPDIS

SIPDIS

E.O. 12958: DECL: 11/14/2017

TAGS: [EFIN](#) [PREL](#) [ECON](#) [TH](#)

SUBJECT: FINANCE MINISTER UPBEAT ON THAI ECONOMIC PROSPECTS

BANGKOK 00005824 001.2 OF 003

Classified By: Ambassador Ralph L. Boyce, reason 1.4 (b) and (d).

SUMMARY

1. (C) Most financial liberalization legislation should be completed before the December 23 elections, the Finance Minister told the Ambassador. The interim government is seeking a fast track trade agreement negotiating authority under a new constitutional requirement that requires parliamentary concurrence in international treaties. Thai foreign exchange reserves, now over USD 100 billion, are large, given the need to guard against short-term capital outflows. The baht need not appreciate to reduce the burden of higher oil prices because Thai inflation is low. Foreign investors are keen to invest in ASEAN to diversify away from China and India and, absent major external shocks such as a U.S. recession, Thailand should boost GDP by over 5 percent next year. End summary.

Most Financial Legislation Moving Forward

2. (C) During a farewell call by the Ambassador on November 14, Finance Minister Chalongphob Sussangkarn said that the Currency Act had proved too controversial and that the next government would have to take it up. He expects the three remaining financial liberalization bills to be passed by this government, so long as there are no major difficulties when the bills are reviewed by the NLA committees. He noted that the review of the Financial Institutions Act, the longest of the three with over 100 sections, is already 75 percent done. The Bank of Thailand Act and the Deposit Insurance Act should be less trouble, but they have not yet been reviewed by the relevant committee. Chalongphob added that a new law on public debt management and new laws on excise taxes (on cigarettes and alcohol in particular) are not controversial, but may not be ready in time for passage before the December 23 election. The Ambassador noted that we have no issue with excise tax revision, so long as domestic and imported goods are treated the same.

13. (C) The Ambassador asked about the Foreign Business Act (FBA), and whether if passed it could force firms considered foreign under the new rules to divest control. The Finance Minister said that firms operating in areas restricted in the FBA's List Two, which restricts foreign involvement in industries that affect national security, culture, and natural resources, would have three years to come into conformity with the new law, while those in the less restrictive List Three would be grandfathered. He added that the NLA is still considering whether to pare back the number of industries on the lists. Chalongsob also related that he is dissatisfied with the way the new Retail Act has proceeded. He said that the Council of State, which should have only an advisory role, has rewritten the bill in such a way as to give inordinate power to the Minister of Commerce, with attendant possibilities for mischief. The NLA may yet walk that back.

#### A Positive Outlook for More Trade Deals

-----

14. (C) When asked about the prospects for a new trade liberalization agreement with the United States, the Finance Minister said he believes that Article 190 of the new constitution, which mandates parliamentary approval of international agreements, will strengthen the prospects for future deals. Any government will have majority control of parliament and so should be able to get approval of such agreements. The key, he said, is for the parliament to have a final yes-or-no vote, similar to a fast track authority in the United States. The Ministry of Foreign Affairs has drafted legislation which would limit Article 190's application to trade-related agreements and allow only an up or down vote. It is not clear whether this legislation will get passed this term, but it should go before the Cabinet

BANGKOK 00005824 002.2 OF 003

November 20.

#### FOREX Reserves Not Large; Baht Need Not Appreciate

-----

15. (C) The Finance Minister said that Thailand's foreign exchange reserves, which topped USD 100 billion last week, are not large relative to Thailand's needs and should continue to grow. The critical requirement for such reserves is not just to cover import needs, he explained, but to guard against short-term capital flows. Most Asian countries learned from the 1997 financial crisis to restrict short-term debt, but unrestricted flows for portfolio and bond investments also require deep foreign exchange reserves. Chalongsob said he could foresee Thailand accumulating USD 150 billion in reserves.

16. (C) On the value of the baht, the Finance Minister said Thailand should not depart from the policy of its neighbors, in particular export competitors such as Malaysia, Vietnam, Indonesia and China. As the Chinese yuan remains rigid, the baht should not appreciate too rapidly. He believes it is important to convince the market of your intentions, but admitted that there is a diversity of opinion within the Bank of Thailand on appropriate baht policy.

17. (C) With core inflation running at a mere 1.1 percent, Thailand has plenty of cushion to deal with rising oil prices without adjusting the baht, Chalongsob said (Comment: A number of local analysts have questioned the government's focus on core inflation, which does not include oil or food prices.) The Ministry is more concerned with potential economic fall-out from the sub-prime mortgage crisis in the United States (Thailand's largest export market) than with rising oil prices, which fluctuate in the short term. Part of the decline in the dollar is the effort of many central banks to move reserves from the dollar to the Euro.

ASEAN a Focus for New Investment

-----  
¶18. (C) The Finance Minister related that when he was in New York recently on an ASEAN road show, there was no need for a hard sell as investors are already keen to invest in the region. Not wanting to put all their eggs in the China basket, and sensing that India is pressing the limits of what investment it can absorb efficiently, investors are interested in ASEAN, with its 550 million people and good supply networks, according to Chalongphob. Especially in the automotive area, investments are coming in and should drive the Thai economy in the next few years. He foresees GDP growth over 5 percent in Thailand next year, absent severe external shocks.

¶19. (C) The Finance Minister believes that the current cabinet will be in place until a new lower house is seated, which he believes will occur by early February. Chalongphob expects to return as head of the Thailand Development Research Institute when his service in the interim government is completed.

¶10. (C) Comment: Most U.S. companies operating in Thailand receive national treatment under the Treaty of Amity and Economic Relations or have obtained investment privileges from the Board of Investment. However, inland transportation is one restricted industry included on List Two and FEDEX and UPS could be affected under the new FBA provisions. Dole and Cargill agricultural production could also be affected if they are redefined under the new FBA as foreign entities (foreigners are not allowed to own land). Separately, we know from discussions with the Bank of Thailand that there is spirited disagreement over baht policy and the wisdom of rapid accumulation of foreign exchange reserves. The Finance Ministry seems committed for now to restraining the strong baht to support exports, but that is one policy area we will be watching closely with the change in government early next year. End Comment.

BANGKOK 00005824 003.2 OF 003

BOYCE